

AN ATTRACTIVE TAX REGIME

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The Republic of Macedonia has been making rapid changes to legal regulation in the last year. This has been driven by the requirements of investors, with special attention to attracting foreign direct investment.

The most important changes in the regulation have been made in tax legislation. Macedonia has recently become a tax heaven in Europe. The new government introduced a flat tax rate for corporate and personal income tax. In 2007 the corporate tax rate is 12%, reducing to 10% thereafter. The previous corporate tax rate was 15%.

The personal income tax rate is also 12% in 2007 and 10% afterwards. The previous personal income tax rates were 15%, 18% and 24% according to income. To stimulate additional foreign and domestic investment, corporate tax is not levied on reinvested profits.

Tax-based incentives

With the new flat tax rate of 10%, Macedonia has one of the most attractive packages of taxes in Europe. The flat tax rate introduces a simple tax system which stimulates successful companies to improve operations and profitability. With this attractive tax package, additional funds are provided which companies may use to improve their competitiveness.

In addition, there are special tax incentives in the technological-industrial development zones (TIDZs). The most important are a 10-year corporate tax exemption and a reduction of a personal income tax by 50% for a period of five years. After the expiry of the 10-year corporate tax exemption, companies in these zones will be able to take advantage of the tax exemption by which reinvested profits are taxed at the zero rate.

The effective personal income tax amounts to 5%. In order to avoid double taxation of foreign companies located in the Republic of Macedonia, 34 double taxation agreements have been concluded on a bilateral basis, of which 25 are in force. It is expected that the remaining nine will be ratified soon. The tax system enables transparent and efficient administrative procedures. A tax system with a single flat tax allows simple calculation and easy filling out of tax returns.

According to the World Bank's 2007 report *Doing Business*, which ranks 175 countries according to the ease of doing business, Macedonia is ranked 92nd, compared with a starting rank of 76th.

With the implementation of the one-stop-shop system for registration of companies and the start of operations of the Central Registry, registrants must wait three days from the day of submission of the complete documentation until a decision for registration is issued. The government is working intensively on decreasing the large number of unnecessary administrative procedures.

There are significant reforms in the Real Estate Cadastre for completing and updating of real estate databases, which at the moment covers 62% of existing real estate, an increase of 20% compared to last year.

Development zones

Users of TIDZs can be any domestic or foreign natural or legal person who is registered to perform such activity and has signed a contract with the founder of the zone for its use.

A TIDZ is a part of the territory of the Republic of Macedonia comprising a detached section of a customs zone which is specifically fenced and marked. It constitutes a functional totality in which commercial activities are performed in compliance with the conditions prescribed by law, and to which customs and other tax incentives are applicable.

Imported goods entering the TIDZ are exempt from VAT, including those entering the zone from within Macedonia or transferred from another TIDZ in Macedonia. If the founder has paid the land rent (in total or in part) in advance, and the land value according to which the land rent is calculated changes after that, the amount of land rent paid in advance shall not be changed.

The most investments are expected in the energy sector. On September 10 1997, the Law on Energy was promulgated by the Parliament of Macedonia. The Law regulates activities in the energy sector and defines the protection of the environment. According to the Law, the energy sector is composed of generation of electricity; transmission and distribution; coal production and processing; oil production and transportation; gas production, transportation and distribution; thermal, geothermal, and other types of energy generation, transportation and distribution; the transit of energy and energy supplies; and the trading of energy. The aim of the law is to implement the legal basis of the reforms in the energy sector and to comply with EU directives.

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